

## IDS Strategy . . . Executive Summary

The IDS strategy pursued by hospital systems in the Delaware Valley appeared to be comparable.

IDS Imperative	AHERF	UPHS	TUHS	JHS	Rationale
Linkage with a medical school	●	●	●	●	<ul style="list-style-type: none"> <li>Market leading IDSs all had AMC linkages</li> <li>UPHS' U of PA had the highest NIH ranking in Philadelphia</li> </ul>
Grow regional share	●	●	●	●	<ul style="list-style-type: none"> <li>Distributed market position across market leading Delaware Valley IDSs</li> <li>Only AHERF pursued a growth strategy throughout the state; other IDSs implemented regional initiatives</li> </ul>
Develop linkages with community hospitals	●	●	●	●	<ul style="list-style-type: none"> <li>UPHS has the lowest number of community hospital affiliations</li> </ul>
Develop primary care networks	●	●	●	●	<ul style="list-style-type: none"> <li>TUHS did not pursue an aggressive acquisition model</li> </ul>
Improve operational effectiveness	●	●	●	●	<ul style="list-style-type: none"> <li>No IDS demonstrated significant operational effectiveness over competitors</li> </ul>

● = Highly consistent    ● = Moderately consistent    ○ = Inconsistent

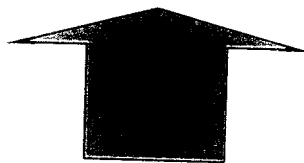
Note: UPHS = University of PA Health System, TUHS = Temple University Health System, JHS = Jefferson Health System  
Source: AHERF Strategic Planning and Acquisition materials; BDC Advisors, LLC analysis

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Although not the norm nationally, relationships with medical schools were pursued by Pittsburgh and Philadelphia systems to give physician and hospital providers the ability to manage patient populations.

## Rationale

- Relationship with medical school provides opportunity for community hospitals to offer additional and differentiated high-end services
- Medical school faculty appointment attracts physicians on the leading edge of research and patient care
- Association with strong medical residency programs offers prestige
- Relationship with medical school guarantees a supply of physicians to staff programs



## Market Evidence<sup>1</sup>

- UPHS / University of Pennsylvania School of Medicine (1765)
- UPMC / University of Pittsburgh School of Medicine (1787)
- JHS / Jefferson Medical College (1824)
- TUHS / Temple University School of Medicine (1844)
- AHERF / Allegheny University of the Health Sciences (1994)<sup>2</sup>

Notes: (1) Date represents linkage of hospital and medical school

(2) Based upon AHERF merger with Hahnemann University in 1994; however AHERF merged with MCP in 1987

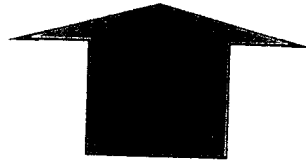
Source: AHERF Strategic Planning and Acquisition materials; Health Affairs 19(1): 7 - 41, 2000; BDC Advisors, LLC analysis

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Large geographic coverage and comprehensive service offerings were designed to attract patients. This was pursued to give physicians and hospitals influence over health plans.

### Rationale

- A large network of hospitals and physicians attracts patients
- Region-wide IDS development allows direct contracting with self-insured employer groups
- IDSs with comprehensive services have a competitive advantage
- Own / affiliate with a full range of services throughout a wide region ensures appropriate, coordinated, and managed patient care
  - ➔ Develop primary care delivery sites
  - ➔ Maximize specialty and subspecialty services



### Market Evidence

- UPMC: Pursued community hospital linkages in Pittsburgh
  - ➔ *"The goal is not only to amass hospitals to build a large network, but to unite with hospitals that give UPMC the greatest reach, making it more attractive to health insurers."*<sup>1</sup>
  - ➔ 6/95: Highmark BCBS encouraged physician referrals to select hospitals, five of the six in UPMC's network
  - ➔ 10/96: Highmark BCBS gave UPMC a 20% share of its Medicare HMO
- UPHS: Phoenixville merger with U Penn deemed critical by CEO as the only way to ensure access to managed care contracts<sup>2</sup>
- AHERF: Pursued expanded regional market consolidation strategy in two distinct markets, Philadelphia and Pittsburgh

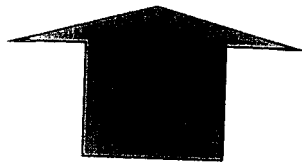
Notes: (1) Quote from UPMC President, Jeffrey Romoff, on approach to integration, Pittsburgh Business Times, March 1996  
(2) Medical Industry Today, November 1996

Source: AHERF Strategic Planning and Acquisition materials; GartnerGroup; American College of Physicians; BDC Advisors, LLC analysis

**Relationship with community hospitals and their medical staffs were also pursued to increase patient referrals.**

## **Rationale**

- Patient care and education missions of teaching hospitals are supported by providing additional patients
- Incremental patient volume would allocate higher fixed costs of teaching hospitals<sup>2</sup>



## **Market Evidence**

- TUHS (founded in 1996)
  - ➔ "Neumann will direct patients with special needs to Temple facilities, while their physicians are provided access to continuing medical education programs at Temple."<sup>1</sup>
  - ➔ Community hospital linkages: Northeastern (1996), Jeanes ('96), Lower Bucks ('97), Neumann ('97) Episcopal ('98)
- UPHS (founded in 1993)
  - ➔ Community hospital linkages: Presbyterian Medical Center (1995), Pennsylvania Hospital ('97), Phoenixville Hospital ('97)
- UPMC Health System (founded in 1997)
  - ➔ Community hospital linkages: South Side ('96), Beaver Valley ('96), Shadyside ('97), St. Margaret ('97), Passavant ('97), McKeesport ('98), Horizon ('98), Lee Regional ('98), Magee-Women's ('98)

Notes:

(1) Robert Lux, CFO of TUHS, on the affiliation agreement with Neumann; Philadelphia Business Journal, November, 1996  
(2) According to a 1998 analysis by The Lewin Group, the cost per case for AMC hospitals (\$8,548) was higher than the cost per case for other urban community hospitals (\$5,238) in the US

Source:

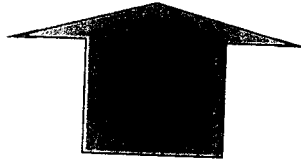
AHERF Strategic Planning and Acquisition materials; The Commonwealth Fund, "Envisioning the Future of Academic Health Centers", February, 2003; BDC Advisors, LLC analysis

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**Because HMO patients must select a primary care physician (PCP) to manage their care, many systems developed relationships with PCPs.**

## **Rationale**

- National health care agenda focused on cost containment emphasizes managed care as the principal vehicle
- Relationship with PCPs considered essential to gain contract with health plans and the ability to manage the cost of specialty care services



## **Market Evidence**

- Expansion of Medicare & Medicaid HMOs
  - ➔ Crozer-Keystone Health System's MedCare Plus seeks to expand beyond Delaware Valley
  - ➔ Health Partners (Medical Assistance HMO) initiated by 7 Delaware Valley hospitals, including MCPH and SCHC
- UPHS: Clinical Care Associates (PCP network established in 1993)
- JHS: Jefferson HealthCARE Physicians (PCP network established in 1996)
- TUHS: Temple Physicians, Inc. (PCP network established in 1996)
- AHERF: AHERF's key goal was "to build strong relationships with primary care and referring physicians in each regional market" by owning or affiliating with 400 PCPs and 3 – 6 multi-specialty group practice sites in each region by 1999

Note: Physicians that did not want to sell their practices typically aligned with MSOs and POs within the Delaware Valley to maintain independence  
Source: AHERF Strategic Planning and Acquisition materials; Philadelphia Business Journal, 1/98; BDC Advisors, LLC analysis

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